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Message Text

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46
ACTION EB-07

INFO OCT-01 AF-06 ARA-06 EUR-12 NEA-10 ISO-00 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01

PM-04 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 PRS-01 PA-01 /116 W
---------- 082671
P R 111300Z OCT 75
FM AMEMBASSY KUWAIT
TO SECSTATE WASHDC PRIORITY 3815
INFO AMEMBASSY ABU DHABI
AMEMBASSY BEIRUT
AMEMBASSY CARACAS
AMCONSUL DHAHRAN
AMEMBASSY DOHA
AMEMBASSY JIDDA
AMEMBASSY LAGOS
AMMEMBASSY LONDON 2296
AMEMBASSY TEHRAN
USINT BAGHDAD

C O N F I D E N T I A L KUWAIT 4125

E.O. 11652: GDS
TAGS: ENRG KU
SUBJECT: KOC TAKEOVER AGREEMENT ANNOUNCED BUT NEGOTIATIONS
NOT COMPLETE

REF: KUWAIT 4017

SUMMARY: GOK HAS ANNOUNCED COMPLETION OF NEGOTIATIONS REGARDING
TAKEOVER OF KUWAIT OIL COMPANY. COMPANIES WILL RECEIVE $66
MILLION FOR THEIR REMAINING 40 PERCENT SHARE OF COMPANY AND WILL
BE GIVEN ASSURED ACCESS TO 1.3 MILLION BPD KUWAITI CRUDE OVER
NEXT FIVE YEARS. COMPANY SOURCE HAS TOLD US THAT FINAL PRICE-
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PER-BARREL AND COMPENSATION TERMS REMAIN TO BE WORKED OUT, BUT

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HE HOPES THIS WILL BE DONE OVER NEXT FEW DAYS. IN ADDITION TO ABOVE, GOK WILL ENTER INTO SERVICE AND COOPERATION AGREEMENTS WITH GULF AND BP, AND GULF OFFICIAL BELIEVES ITS FUTURE RELATIONSHIP WITH KUWAIT LIKELY TO BE SIGNIFICANT. END SUMMARY.

BEGIN UNCLASSIFIED
1. KUWAIT OIL MINISTER KAZEMI HAS ANNOUNCED THAT GOK HAS COMPLETED NEGOTIATIONS WITH GULF AND BP REGARDING TAKEOVER THEIR REMAINING 40 PERCENT INTEREST IN KUWAIT OIL COMPANY. ANNOUNCEMENT WAS MADE THURSDAY OCTOBER 9 FOLLOWING FOUR HOURS OF DISCUSSIONS BETWEEN MINISTRY OF OIL AND COMPANY OFFICIALS. ACCORDING TO ANNOUNCEMENT, COMPANIES WILL SHARE $66 MILLION IN COMPENSATION AND WILL HAVE ASSURED ACCESS TO 1.3 MILLION BPD KUWAITI CRUDE FOR FIVE YEARS AFTER WHICH TOTAL AVAILABLE WILL BE REDUCED TO 800,000 BPD.

2. IN MAKING ANNOUNCEMENT KAZEMI JUSTIFIED TERMS, WHICH WERE BETTER FOR COMPANIES THAN HAD UNTIL THEN BEEN PUBLICLY INDICATED, AS BEING NECESSARY TO GIVE GOK TIME TO ESTABLISH ITS OWN MARKETING INSTITUTIONS AND CAPABILITIES. HE SAID THAT SOME ISSUES, SUCH AS DIFFERENTIALS AND ACTUAL PRICE TO BE PAID, REMAIN TO BE WORKED OUT.
END UNCLASSIFIED

BEGIN CONFIDENTIAL
3. RALSTON OF GULF BRIEFED AMBASSADOR THURSDAY AFTERNOON. HE PLACED GREATER EMPHASIS THAN KAZEMI ON SIGNIFICANCE OF REMAINING ISSUES. HE SAID HE CONVINCED BY KAZEMI THAT IF COMPANIES DO NOT ACCEPT 15 CENT PER BARREL DIFFERENTIAL OFFERED BY GOK, KUWAITI NATIONAL ASSEMBLY AND CABINET MIGHT REDUCE OR ELIMINATE DIFFERENTIAL ALTOGETHER. HE INDICATED COMPANIES WILL THEREFORE GRUDGINGLY ACCEPT 15 CENT DIFFERENTIAL. HOWEVER, HE SAID ACTUAL PRICE PER BARREL HAD NOT YET BEEN AGREED UPON. COMPANIES ARE ARGUING THAT NEW PRICE FOLLOWING RECENT OPEC 10 PERCENT PRICE INCUREASE ($11.41) EVEN WITH DIFFERENTIAL IS SIMPLY NON-COMPETITIVE. RALSTON SAID KAZEMI SEEMS TO UNDERSTAND AND APPRECIATE THIS POINT AND APPEARS WILLING INSERT SOME LANGUAGE IN FINAL AGREEMENT TO EFFECT THAT GOK WILL CALCULATE DIFFERENTIAL FROM "COMPETITIVE AND REASONABLE" PRICE BASE. AS OF SATURDAY, HOWEVER, NEGOTIATIONS ARE CONTINUING.
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4. IN ADDITION, EXACT COMPENSAION PACKAGE REMAINS TO BE WORKED OUT. ALTHOUGH GOK HAS MENTIONED ONLY $66 MILLION FIGURE, IT HAS RAISED SEVERAL OLD CLAIMS OF ITS OWN, AND UNTIL AGREEMENT REACHED REGARDING THEM NET COMPENSATION TO COMPANIES WILL NOT BE DETERMINED.

5. FINALLY, GOK DID MAKE CLEAR TO GULF THAT IT WISHES TO

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ENTER INTO SERVICE CONTRACT WITH AMERICAN COMPANY AND TO GIVE SERIOUS CONSIDERATION TO COOPERATING TOGETHER WITHIN AND OUTSIDE KUWAIT BOTH IN PETROLEUM AND NON-PETROLEUM-RELATED ACTIVITIES. GULF CONSIDERS SERVICE CONTRACT AS POTENTIALLY SIGNIFICANT, PARTICULARLY IF, AS IT EXPECTS, KOC WILL HAVE MAJOR ROLE IN GAS AND PETROCHEMICAL PROJECTS HERE. NOT CLEAR WHETHER GOK-BP SERVICE CONTRACT IS SIMILAR; WE UNDERSTAND THAT GOK MUCH PREFERS WORKING WITH GULF, BUT AS REPORTED EARLIER GOK MAY WISH TO COOPERATE WITH BP IN SOUTH YEMEN AND PERHAPS ELSEWHERE.

6. RALSTON SAID HE AND BP CHIEF NEGOTIATOR MARSTON-SMITH WILL REMAIN IN KUWAIT UNTIL REMAINING POINTS ARE AGREED UPON. HE HOPES THIS WILL NOT TAKE MORE THAN A FEW DAYS, AND WE SHALL REPORT COMPLETION OF NEGOTIATIONS ONCE THAT EVENT OCCURS.

7. COMMENT: KOC TAKEOVER TALKS SEEM TO BE GOING ALONG ON SCHEDULE. AS PREDICTED LAST SPRING, GOK USED SUMMER PERIOD TO MOVE NEGOTIATIONS ALONG, AND IT WILL WANT TO HAVE FINAL KOC TAKEOVER PACKAGE READY FOR PARLIAMENT WHEN IT RESUMES ITS SESSION OCTOBER 28. WE ASSUME ARAMCO OWNERS AND SAG CLOSELY WATCHING DEVELOPMENTS HERE AS WELL AS IN CARACAS. WISH TO NOTE THAT SHOULD SAG NEGOTIATE BETTER DEAL WITH ARAMCO OWNERS, WE BELIEVE GOK WILL SEEK TO REOPEN KOC TALKS AND INSIST ON EQUAL TERMS. HOPEFULLY, THIS WILL NOT HAPPEN, BUT KUWAITIS CAN BE EXPECTED TO WATCH SAUDI TAKEOVER TALKS JUST AS CAREFULLY AS SAUDIS HAVE BEEN WATCHING SITUATION HERE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: NATIONALIZATION, PETROLEUM INDUSTRY, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 11 OCT 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: KelleyW0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975KUWAIT04125
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750354-1035
From: KUWAIT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751060/aaaacbak.tel
Line Count: 143
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 KUWAIT 4017
Review Action: RELEASED, APPROVED
Review Authority: KelleyW0
Review Comment: n/a
Review Content Flags:
Review Date: 24 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 JUN 2003 by ShawDG>; APPROVED <13 NOV 2003 by KelleyW0>
Review Markings:

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US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: KOC TAKEOVER AGREEMENT ANNOUNCED BUT NEGOTIATIONS NOT COMPLETE
TAGS: ENRG, KU
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006